CITY OF ONAWAY ONAWAY, MICHIGAN

Financial Statements and Single Audit For the Year Ended March 31, 2004

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C. 580 S. Nicolet, P.O.Box 996
Mackinaw City, MI 49701

	iting I er P.A. 2 of 1		ocedures Repo	ort					
Local Gove	ernment Typ	e /nshi	p	Local Governme			Cour	aque I	sle
Audit Date 3/31/04		•	Opinion Date 8/27/04		Date Accountant Report Subm 12/31/04	nitted to State:			
accordan	nce with t	he S	inancial statements of this Statements of the Govern or Counties and Local Units	mental Accou	inting Standards Board	(GASB) and	the Uniform	Report	nts prepared in ting Format fo
We affirm									
1. We h	nave comp	olied	with the Bulletin for the Au	dits of Local L	Inits of Government in Mi	ichigan as revi	sed.		
2. We a	are certifie	d pu	blic accountants registered	I to practice in	Michigan.				
			llowing. "Yes" responses ha nendations	ave been disc	losed in the financial stat	ements, includ	ling the note	es, or in t	he report of
You must	check the	app	olicable box for each item b	elow.					
Yes	✓ No	1.	Certain component units/	funds/agencie	s of the local unit are exc	cluded from the	e financial s	tatemen	ts.
Yes	✓ No	2.	There are accumulated of 275 of 1980).	deficits in one	or more of this unit's ur	nreserved fund	l balances/r	etained	earnings (P.A
✓ Yes	☐ No	3.	There are instances of ramended).	non-complianc	ce with the Uniform Acco	ounting and B	ludgeting A	ct (P.A.	2 of 1968, as
Yes	✓ No	4.	The local unit has violat requirements, or an order				the Munici	pal Fina	nce Act or its
Yes	✓ No	5.	The local unit holds depo as amended [MCL 129.91				y requireme	ents. (P.A	A. 20 of 1943,
Yes	✓ No	6.	The local unit has been de	elinquent in di	stributing tax revenues th	at were collec	ted for anoth	ner taxir	ng unit.
Yes	₽ No	7.	The local unit has violate pension benefits (normal credits are more than the	costs) in the	current year. If the plan	is more than	100% funde	d and th	ne overfunding
Yes	☑ No	8.	The local unit uses credi (MCL 129.241).	it cards and I	has not adopted an app	licable policy	as required	by P.A	. 266 of 1995
Yes	✓ No	9.	The local unit has not ado	pted an invest	tment policy as required t	oy P.A. 196 of	1997 (MCL	129.95).	
We have	enclosed	the	following:			Enclosed	To Be Forward		Not Required
The letter	r of comm	ents	and recommendations.			~			
Reports o	on individu	al fe	deral financial assistance p	programs (pro	gram audits).				'
Single Au	ıdit Report	s (A	SLGU).		A A A A A A A A A A A A A A A A A A A	~			
1	blic Account	•	irm Name) ister, CPA, PC						
Street Addre	ess ox 996, 5		South Nicolet Street		City Mackinaw C	ity	State MI	ZIP 4970	1
Accountant	Signaturé	1	Malle	di	77 T T T T T T T T T T T T T T T T T T		Date / 2	-3	ومده

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Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

August 27, 2004

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

I have audited the accompanying financial statements of the *City of Onaway*, *Onaway*, *Michigan*, as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the *City of Onaway's* management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *City of Onaway*, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report, dated August 27, 2004, on my consideration of the City of Onaway's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements of the City of Onaway. The combining and individual fund and account group financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, are fairly stated in all material respects, in relation to the financial statements taken as a whole.

Mallon

Richard E. Mahlmeister, C.P.A.

FINANCIAL STATEMENTS

CITY OF ONAWAY COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS MARCH 31, 2004

		GOVERNMENTA	L FUND TYPES	
ASSETS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Cash and cash equivalents	\$217.470	0144 = 00		
Restricted cash and cash equivalents	\$217,479	\$144,708	\$ -	\$
Restricted investments	-	-	-	
Taxes receivable	E9 0.47	-	-	
Accounts receivable	58,947		2,254	
Special assessments receivable	12,024	17,775	-	
Due from other funds	22,050	-	-	
Property and equipment(net, where applicable, of accumulated depreciation)	22,030	-	7,064	
Financing costs (net of amortization)	-	•	-	
Amount to be provided for debt service	•	-	-	
		-	-	
TOTAL ASSETS	\$310,500	\$162,483	\$9,318	s
LIABILITIES AND FUND EQUITY				
LIABILITIES				
LIABILITIES:				
Accounts payable	\$6,621	\$ -	s -	\$
Due to other funds		· •	Ψ - -	3
Deferred revenue	-	_	-	
Bonds payable	•		_	
Notes payable	-	-	_	
Accrued sick pay	•	-		
TOTAL LIABILITIES	6,621	•		
TUND EQUITY				
Contributed capital	-	_		
Investment in general fixed assets	-	_	-	
Retained Earnings:			-	
Reserved for revenue bonds	-	-	_	
Unreserved	-	•	-	
Fund Balances:			~	
Reserved	54,446	-	9,318	
Unreserved, undesignated	249,433	162,483	7,010	
TOTAL FUND EQUITIES	303,879	162,483	9,318	
TOTAL LIABILITIES				
AND FUND EQUITY	\$310,500			

See Accompanying Notes.

INTERNAL TRUST AND FIXED LONG-TERM (MEMORA SERVICE AGENCY ASSETS DBBT (MEMORA ONL)	PROPRIETARY I	FUND TYPES	FIDUCIARY			
\$26,541 \$790 \$7,114 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	ENTERPRISE		TRUST AND	GENERAL FIXED	GENERAL LONG-TERM	TOTAL (MEMORANDU ONLY)
16,591 16,500 32,011 1,752 5,010,652 20,510 31,602 55,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6,005 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$					-	•
16,591 16,500 32,011 1,752 5,010,652 31,602 55,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6, \$6,905 \$		\$790	\$7,114	\$ -	\$ -	- \$396,6
32,011 1,752 5,010,652 20,510 31,602		-	-	-		- 16,5
1,752	16,500	-	-	-		- 16,5
1,752	22.011	-	•	-	•	61,2
5,010,652 20,510 404,277 5, 31,602 - 214,340 - \$5,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6, \$6,905 \$ - <		-	-	-	-	61,8
31,602 - 214,340 \$5,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6, \$6,905 \$ - \$ - \$ - \$. \$. \$. \$. \$. \$. \$.	1,752	-	-	-	-	1,7
31,602 - 214,340 - 31,340 -	-	-	-	-	-	29,11
\$5,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6, \$6,905 \$ - \$ - \$ - \$ - \$ 22,000 - 7,114		20,510	-	404,277	_	5,435,43
\$5,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6,25 \$6,200 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	31,602	-	-	•	_	31,60
\$6,905 \$ - \$ - \$ - \$ - \$ 22,000 - 7,114 1,752 22,000 1,6 3,749 14,580 - 149,121 1 43,219 1,632,406 14,580 7,114 - 214,340 1,8 3,236,288 3,2 - 404,277 - 4 25,936 404,277 - 4 25,936 4 3,503,243 6,720 4		-		_	214,340	214,34
\$6,905 \$ - \$ - \$ - \$ - \$ 22,000 - 7,114 1,752 22,000 1,6 3,749 14,580 - 149,121 1 43,219 1,632,406 14,580 7,114 - 214,340 1,8 3,236,288 3,2 - 404,277 - 4 25,936 404,277 - 4 25,936 4 3,503,243 6,720 4	\$5,135,649	\$21,300	\$7.114	\$404.277	£21.4.2.40	BC 8C4 00
22,000 - 7,114 1,752 - - 1,598,000 - - 22,000 1,6 3,749 14,580 - - 149,121 1 - - - 43,219 1,632,406 14,580 7,114 - 214,340 1,8 3,236,288 - - - 3,2 25,936 - - - - 241,019 6,720 - - - - - - - - - - - -	\$6,905	\$ -	s -	e _	c	010.50
1,752 - 22,000 1,6 3,749 14,580 - 149,121 1 - - 43,219 1,632,406 14,580 7,114 - 214,340 1,8 3,236,288 - - - 404,277 - 4 25,936 -		<u> </u>		3 -	\$ -	\$13,52
3,749 14,580 - 149,121 1 1,632,406 14,580 7,114 - 214,340 1,8 3,236,288 404,277 - 4 25,936 404,277 - 2 241,019 6,720 2 3,503,243 6,720 4 3,503,243 6,720 4		_	7,224	_		29,11
3,749	1,598,000	-	-	_	22,000	1,75
1,632,406	3,749	14,580	_	-		1,620,00
3,236,288 3,2 - 404,277 - 4 25,936		-		•		167,45 43,21
25,936 241,019 6,720 2.	1,632,406	14,580	7,114	-	214,340	1,875,06
25,936	3,236,288	-	-	-	-	3,236,288
241,019 6,720 - 2	-	-	-	404,277	-	404,27
3 503 243		-	-	-	_	25,936
3 503 243 6 720	241,019	6,720	-	-	-	247,739
3 503 243 6 720	-	-	-	-	-	63,764
3,503,243 6,720 - 404,277 - 4,38		-			-	411,916
	3,503,243	6,720		404,277		4,389,920
\$5,135,649 \$21,300 \$7,114 \$404,277 \$214,340 \$6,26	\$5,135,649	\$21,300	\$7.114	\$404 277	\$31.4.2.40	\$6,264,981

CITY OF ONAWAY COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED MARCH 31, 2004

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
REVENUES				
Taxes	\$248,788	c	00.010	
State shared revenues	141,157	\$ -	\$9,318	\$
State grants	141,137	93,323	-	
Federal grants	_	-	-	7,900
Licenses and permits	486	-	-	11,340
Charges for services	61,946	- 1 5 061	-	
Fines and forfeits	3,866	45,064	-	
Interest	4,623	- 047	-	
Donations	4,730	847	•	
Other	6,409	168	<u>-</u>	
TOTAL REVENUES	472,005	139,402	9,318	19,240
EXPENDITURES				
Current:				
Legislative	12.072			
General government	12,963	-	-	
Public safety	178,261	-	-	-
Public works	127,463	19,949	-	-
Recreation and culture	58,725	70,796	-	-
Capital Outlay	15,793	-	-	-
Debt Service:	-	-	-	127,940
Principal				
Interest	-	19,783	-	-
-	•	11,477		
TOTAL EXPENDITURES	393,205	122,005	<u> </u>	127,940
REVENUES OVER (UNDER) EXPENDITURES	78,800	17,397	9,318	(108,700)
OTHER FINANCING SOURSES (USES)				
Operating transfers in		*****		
Operating transfers out	(163,700)	14,969	-	108,700
-	(103,700)	(14,969)		
TOTAL OTHER FINANCING SOURCES (USES)	(163,700)	•		108,700
REVENUES AND OTHER FINANCING			-	
SOURCES OVER (UNDER) EXPENDITURES				
AND OTHER USES	(04 nnn)	4=		
	(84,900)	17,397	9,318	-
UND BALANCES, BEGINNING OF YEAR	388,779	145,086		-
UND BALANCES, END OF YEAR	\$303,879			

-	(MEMORANDUM
	ONLY)
	\$258,106
	234,480
	7,900
-	11,340
	486
	107,010
_	3,866
	5,470
	4,898
	6,409
	639,965
-	
	12,963
_	178,261
	147,412
	129,521
	15,793
	127,940
	19,783
	11,477
	643,150
•	(3,185)
	123,669
	(178,669)
,	(55,000)
	(178,669)
	(58,185)
	533,865

\$475,680

TOTAL

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED MARCH 31, 2004

		GENERAL FUND	
			VARIANCE
	BUDGET	A COMMET A W	FAVORABLE
	BUDGET	ACTUAL	(UNFAVORABLE)
REVENUES			
Taxes	\$246,000	\$248,788	62 500
State shared revenues	141,700	141,157	\$2,788
Licenses and permits	500	486	(543
Charges for services	62,500	61,946	(14)
Fines and forfeits	3,000	3,866	(554)
Interest	500	4,623	866
Donations	5,000	4,730	4,123
Other	26,000	6,409	(270) (19,591)
TOTAL REVENUES			
	485,200	472,005	(13,195)
EXPENDITURES			
Current:			
Legislative	13,037	12,963	74
General government	202,493	178,261	24,232
Public safety	130,431	127,463	2,968
Public works	61,100	58,725	2,375
Recreation and culture	18,041	15,793	2,248
Capital Outlay	-	-	_,
Debt Service:			
Principal	-	_	_
Interest	-		-
TOTAL EXPENDITURES	425,102	393,205	31,897
REVENUES OVER (UNDER) EXPENDITURES	60,098	78,800	
,	00,070	/0,000	18,702
OTHER FINANCING SOURSES (USES)			
Loan proceeds	_		
Operating transfers in	_	-	-
Operating transfers out	(198,500)	(163,700)	34,800
TOTAL OTHER FINANCING SOURCES (USES)	(198,500)		
(8828)	(170,300)	(163,700)	34,800
REVENUES AND OTHER FINANCING			
SOURCES OVER (UNDER) EXPENDITURES			
AND OTHER USES	(138,402)	(84,900)	53,502
FUND BALANCES, BEGINNING OF YEAR	388,779	388,779	
FUND BALANCES, END OF YEAR	\$250,377	\$303,879	\$53,502
See Accompanying Notes.	- 3 -		

SPECIAL	REVENUE	FUNDS

BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	
\$ -	\$ -	\$ -	
94,000	93,323	(677)	
41,275	45,064	3,789	
700	- 847	- 147	
<u>-</u>	168	168	
135,975	139,402	3,427	
-	-	_	
20.170	-	-	
20,169 86,885	19,949 70,796	220 16,089	
, -	-	-	
-	-	-	
19,783	19,783	-	
10,323	11,477	(1,154)	
137,160	122,005	15,155	
(1,185)	17,397	18,582	
-	-	-	
15,500 (15,500)	14,969 (14,969)	(531)	
(12,000)	(14,505)	531	
-	· · · · · · · · · · · · · · · · · · ·	-	
(1,185)	17,397	18,582	
145,086	145,086	-	
\$143,901	\$162,483	\$18,582	

CITY OF ONAWAY COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUNDS FOR THE YEAR ENDED MARCH 31, 2004

	ENTERPRISE	INTERNAL SERVICE	TOTAL (MEMORANDU) ONLY)
OPERATING REVENUES	V		ONET
Charges for services	\$143,252	\$51,423	\$194,6
Current taxes	1,958		1,9
State grant	422,786		422,7
TOTAL OPERATING REVENUES	567,996	51,423	619,4
OPERATING EXPENSES			
Salaries and wages	32,531	6,147	20.4
Fringe benefits	6,228	2,688	38,6
Supplies and gasoline	6,096	•	8,9
Travel and memberships	856	10,069	16,1
Professional services	431,725	1 246	8:
Conferences and workshops	90	2,246	433,9
Insurance and bonds	2,443	131	22
Utilities	21,701	4,173	6,6
Repair and maintenance supplies	1,065	7,496	29,19
Equipment rentals	10,729	9,756	10,82
Depreciation	22,453	12.412	10,72
TOTAL COLOR	24,433	12,412	34,86
TOTAL OPERATING EXPENSES	535,917	55,118	591,03
OPERATING INCOME (LOSS)	32,079	(3,695)	28,38
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	661	12	67
Interest and fiscal charges	(7,217)	(985)	(8,20
TOTAL NON-OPERATING (EXPENSES) - NET	(6,556)	(973)	(7,52
NCOME (LOSS) BEFORE			
OPERATING TRANSFERS	25,523	(4,668)	20,855
OPERATING TRANFERS			,
Operating transfers in		5,000	5,000
IET INCOME (LOSS)	25,523	332	25,855
DD: Depreciation on Fixed Assets			,,,
Acquired with contributed capital	9,532	<u>-</u>	9,532
NCREASE (DECREASE) IN			
RETAINED EARNINGS	35,055	332	35,387
ETAINED EARNINGS, BEGINNING OF YEAR	231,900	6,388	238,288
ETAINED EARNINGS, END OF YEAR	\$266,955	\$6,720	

CITY OF ONAWAY COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUNDS FOR THE YEAR ENDED MARCH 31, 2004

	ENTERPRISE	INTERNAL SERVICE	TOTAL (MEMORANDUM ONLY)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$32,079	(\$3,695)	\$28,38
Adjustment to reconcile operating income to net		, ,	440,5 0
cash provided by operating activities:			
Depreciation	22,453	12,412	34,86
(Increase) decrease in:		,	34,00
Accounts receivable	(1,878)	_	(1.97
Increase (decrease) in:	,		(1,87
Accounts payable	5,132	(695)	4 42
Due to other funds	4,000	(0/3)	4,43
NET CASH PROVIDED BY			
OPERATING ACTIVITIES	61,786	8,022	69,80
CASH FLOWS FROM CAPITAL AND			07,80
RELATED FINANCING ACTIVITIES:			
Purchase of property, equipment and			
construction in progress	(4.204.00.0		
Construction period interest	(4,301,024)	(10,175)	(4,311,19
Financing costs paid	(44,116)	-	(44,11
Interest paid	(24,007)	-	(24,00
Bond proceeds	(7,217)	(985)	(8,20
Repayment of bonds	1,408,000	-	1,408,00
Repayment of notes payable	(16,000)	-	(16,000
Increase in contributed capital-federal grants	(23,609)	(1,780)	(25,389
Increase in contributed capital-state grant	2,897,772	-	2,897,772
Increase in contributed capital-city	26,952	-	26,952
Therease in contributed capital-city	50,000		50,000
NET CASH (USED) BY CAPITAL			
AND RELATED FINANCING ACTIVITIES	(33,249)	(12,940)	(46,189
CASH FLOWS FROM NONCAPITAL			
FINANCING ACTIVITIES			
Operating transfers in	<u> </u>	5,000	5,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest revenue	661	12	
ET INCREASE IN CASH		12	673
AND CASH EQUIVALENTS	29,198	94	29,292
ASH AND CASH EQUIVALENTS,			
BEGINNING OF YEAR	13,934	696	14,630
ASH AND CASH EQUIVALENTS,			
END OF YEAR	\$43,132	080 0	
	373,134	\$790	\$43,922

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Onaway conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the City and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, ability to significantly influence operations, fiscal dependency, and whether the financial statements would be misleading if data were not included. The component units discussed below are included in the City's reporting entity.

Based on the foregoing criteria, including the consideration of the significance of their operational or financial relationship with the City, the financial statements of the Onaway Area Fire Board is included in the City's annual report as a blended component unit within the Special Revenue Funds because the City is the largest member of the Joint Venture.

FUND ACCOUNTING

The accounts of the City are organized and operated on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds and account groups are grouped by type in the financial statements. The following fund types and account group are utilized by the City:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes as dictated by legal, regulatory or administrative requirements.

Debt Service Funds

The Debt Service Funds are used to record the funding and payment of principal and interest on certain debt reported in the General Long-Term Debt Account Group.

The Courthouse Debt Service Fund is the only Debt Service Fund of the City. Therefore, there are no combining statements presented in the accompanying supplementary combining and individual fund financial statements.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital assets including buildings, parks, roads and equipment.

The Courthouse Restoration Capital Projects Fund is the only Capital Projects Fund of the City. Therefore, there are no combining statements presented in the accompanying supplementary combining and individual fund financial statements.

PROPRIETARY FUNDS

Enterprise Funds

The Enterprise Fund is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

Internal Service

The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

The Motor Vehicle Fund is the only Internal Service Fund of the City. Therefore, there are no combining statements presented in the accompanying supplementary combining and individual fund financial statements.

FIDUCIARY FUND

Trust and Agency Fund

The Trust and Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City maintains only one Trust and Agency Fund entitled Tax Collection Fund.

ACCOUNT GROUPS

General Fixed Assets

This account group presents the fixed assets of the City utilized in its general operations.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt which is not recorded in proprietary or trust funds.

TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental and Agency Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) as net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

The Proprietary Fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for General and Special Revenue Funds as required by generally accepted accounting principles. Appropriations are approved by the City Council on a functional level basis. The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the proposed operating budget is submitted for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgeted amounts are as originally adopted, or as amended by the City Council.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of demand deposits, cash in savings and money market accounts, and certificates of deposit with an original maturity of three months or less.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

DUE TO AND DUE FROM OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

RESTRICTED ASSETS

Certain proceeds of Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

FIXED ASSETS

Fixed assets used in the general operation of the City are recorded as expenditures when purchased and should be accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. Infrastructure assets, including streets, roads, bridges, sanitary sewers, drains, curbs, gutters, and sidewalks are not capitalized.

Proprietary fund fixed assets are capitalized, at cost, and reported as fixed assets on the balance sheet. Construction period interest costs are capitalized as part of the total cost of the related fixed asset. Depreciation has been provided over the estimated useful lives using the straight-line method calculated over the estimated useful lives of the related assets. Amortization of financing costs of the Proprietary Fund are recorded at cost and are amortized over 15 years using the straight line method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

Long-term obligations that arise from transactions in governmental fund types are reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

FUND EQUITY

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those amounts which are legally, contractually, or otherwise segregated for future use. Designations of unreserved fund equity indicate management's tentative plans for use of financial resources in a future period.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2004, reflected in the accompanying financial statements include property taxes levied December 31, 2003. These taxes are due by February 15, 2004, and are added to the County tax rolls after February 28, 2004. The City will receive 100% payment for the delinquent City tax by June, 2004.

The taxable value of the City totaled \$12,852,597, on which ad valorem taxes consisted of 19.1809 mills for the City's operating purposes and .725 mills for debt retirement, raising \$248,788 for operating purposes and \$9,318 for debt retirement.

SICK LEAVE

Sick leave earned as of March 31, 2004, is recorded in the General Long-Term Debt Account Group.

PENSION

The provision for pension costs is recorded on the accrual basis, and the City's policy is to pay pension costs when due.

DEFERRED REVENUE

Deferred revenue recorded in the enterprise fund consists of special assessments on taxpayers for a water improvement project, and represents amounts to be collected in the future.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the function level. During the year ended March 31, 2004, the City incurred expenditures in certain budgetary funds, which exceeded the amount appropriated as follows:

<u>Fund</u>	Appropria	<u>tions</u>	Expenditure	$\mathbf{s} \mathbf{Va}$	riance
SPECIAL REVENUE F	UND				
JOINT VENTURE – ON	NAWAY AR	EA FIRI	E BOARD		
Debt Service - Interes	t \$ 7,	,323	\$ 8,813	\$	1,490

NOTE 3: CASH AND CASH EQUIVALENTS

The caption on the combined balance sheet relating to cash, cash equivalents and restricted investments are as follows:

Cash and cash equivalents	\$396,632
Restricted cash and cash equivalents	16,591
	\$413,223
Restricted investments	\$16,500

The restricted investments amount consist of certificates of deposit with over a 90 day maturity.

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: CASH AND CASH EQUIVALENTS (CONTINUED)

At year-end the carrying amount of the City's deposits were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC) Uninsured – uncollateralized	\$114,367	\$114,367
Uninsured – unconateranzed	315,356	344,170
	\$429,723	\$458,537

These deposits are located in two financial institution located in Cheboygan County. All accounts are in the name of the City and a specific fund. They are recorded in City records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United states, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE 4: SPECIAL ASSESSMENTS

The Township has assessed property owners for a portion of a water project. Following is a summary of this activity for the fiscal year ended March 31, 2004:

	Balance			Balance	
	April 1, 2003	Additions	Deletions	March 31, 2004	
Enterprise Fund:					
Seventh Street Watermain	\$3,504	\$ -	\$1,752	\$1,752	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at March 31, 2004 are as follows:

Fund	Interfund Receivable	Interfund Payable	
General	\$22,050	\$ -	
Enterprise	-	22,000	
Tax Collection		50	
Total	\$22,050	\$22,050	

Operating transfers at March 31, 2004 are as follows:

Fund	Transfer Out	Transfer In	
General	\$163,700	\$ -	
Special Revenue-Major Street	14,969	-	
Special Revenue-Local Street		14,969	
Capital Projects		108,700	
Enterprise Fund-Sewer (contributed capital)		50,000	
Internal Service-Motor Vehicle Fund		5,000	
Total	\$178,669	\$178,669	

NOTE 6: RESERVES AND DESIGNATIONS

Fund balance reserves are summarized as follows:

General Fund:

1,332
\$54,446
\$9,318

Retained earnings reserves are summarized as follows:

Enterprise Fund:

Reserved for revenue bonds \$25,936

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: PROPERTY AND EQUIPMENT - GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance April 1,2003	Additions	Balance March 31, 2004
Buildings Vehicles	\$187,189 36,969	\$127,940 -	\$315,129 36,969
Equipment	52,179	-	52,179
	\$276,337	\$127,940	\$404,277

NOTE 8: PROPRIETARY FUND TYPE FIXED ASSETS

A summary of proprietary fund fixed assets at March 31, 2004, is as follows:

	Enterprise	Fund	Internal Service Fund-Motor Vehicle and	Estimated Useful
	Water	Sewer	Equipment	Lives
Land	\$6,614	\$ -	\$ -	
Water system	1,038,110	-	-	50
Water equipment	12,334	-	-	100
Vehicles and equipment	-	-	249,009	5-10
Construction in progress	-	4,398,920		
Less: accumulated	1,057,058	4,398,920	249,009	
Depreciation -	445,326	-	228,499	
	\$611,732	\$4,398,920	\$20,510	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9: PENSION PLAN

Plan description. The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at Municipal Employees Retirement System, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. The obligation to contribute to and maintain the system for the City employees was established by the City Council. Covered employees contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute at an actuarially determined rate of 2.39% for department heads and 8.2% for the department of public works employees of which the employees share the cost by one-half. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

Annual Pension Cost. For the year ended March 31, 2004 the City's annual pension cost of \$10,787 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 8% investment rate of return, and (b) projected salary increases ranging from 4.5% to 8.66% per year. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four year period. The City does not have an unfunded actuarial liability.

Three year trend information	Year ended December 31:		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual pension cost (APC)	\$0	\$0	\$7,962
Percentage of APC contributed	n/a	n/a	n/a
Net pension obligation	\$0	\$0	\$0
Actuarial value of assets	\$296,527	\$296,101	\$318,486
Actuarial Accrued Liability (AAL)	\$247,448	\$263,424	\$329,088
Unfunded (Excess) AAL	\$(49,079)	\$ (32,677)	\$ 10,602
Funded ration	120%	112%	97%
Covered payroll	\$199,641	\$159,659	\$170,347
UAAL (Excess) as a percentage			
of covered payroll	0%	0%	6%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Other than the pension benefits described in Note 9, the City does not provide its employees with any other post employment benefits.

NOTE 11: SICK AND VACATION PAY

Under the policy of the City, employees are granted sick, vacation and personal leave in varying amounts. Upon hire, each full-time employee is granted 10 days allowance for sick leave. Additional sick leave may be accumulated at the rate of one day of sick leave for each month of service, with a maximum accumulation of 100 days. Upon separation from service, employees with ten or more years of service will be paid for up to 80 days of accumulated sick time.

Vacation leave and personal days are generally non-vesting. Any amounts not used in the year in which they are earned are not allowed to be carried over to the following year, with the exception of special circumstances.

Provision has been made in the financial statements for the sick pay liability, which is included in the General Long-term Debt Account Group.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12: LONG-TERM DEBT

A summary of long term obligations at March 31, 2004, and transactions related thereto for the year then ended is as follows:

	Balance April 1, 2003	Additions	Reductions	Balance March 31, 2004
Proprietary funds Enterprise Fund: Water Revenue Bonds, due in annual installments ranging from \$5,000 to \$15,000 each				
January 1 through 2013; bearing interest at 5%.	\$126,000	\$ -	\$10,000	\$116,000
\$99,000 Water System Improvement Note, due in monthly payments of \$1,887,through July, 2004,				
including interest at 5.08%.	27,359	-	23,610	3,749
\$84,000 Sewer System Revenue Bonds, due in annual installments ranging from \$4,000 to \$12,000 each April 1 and October 1 through 2011; bearing interest at 5.60%.	80,000	-	6,000	74,000
\$1,125,000 Sewer System Revenue Bonds, due in annual installments ranging from \$12,000 to \$56,000 each April 1 and October 1 through 2042; bearing interest at 4.50%.	-	1,125,000	-	1,125,000
\$283,000 Sewer System Revenue Bonds, due in annual installments ranging from \$3,000 to \$16,500 each April 1 and October 1 through 2042; bearing interest at 4.50%.	· · · · · · · · · · · · · · · · · · ·	283,000	-	283,000
Internal Service Fund: Note payable – New Holland Backhoe, annual payments of \$8,180, plus interest at 5.3%, through December, 2004.	16,360	-	8,180	8,180
Note payable – Kubota Tractor annual payments of \$3,200, plus interest at 2.96%, through December, 2005.		9,600	3,200	6,400
Total Proprietary Funds	249,719	1,417,600	50,990	1,616,329
	(Continued)			

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12: LONG-TERM DEBT (CONTINUED)

	Balance April 1, 2003	Additions	Reductions	Balance March 31, 2004
General Long – Term Debt:				
1992 Michigan Transportation Bonds. The bonds are dated September 1, 1992, are payable serially beginning March 1, 1993 and bear interest from 4.0% to 6.0%.	\$28,000	\$ -	\$6,000	\$22,000
Note payable – Fire equipment annual payments of \$5,491, including interest at 4.68%.	19,616	-	4,573	15,043
Note payable – Fire Station Facility, annual payments of \$17,105, including interest at 5.51% through September 15,				
2001.	143,288	-	9,210	134,078
Accumulated sick pay	41,187	2,032	<u> </u>	43,219
Total General Long Term-Debt_	232,091	2,032	19,783	214,340
Total Long Term Obligations	\$481,810	\$1.419,632	\$70,773	\$1,830,669

The annual requirements for five years ending March 31, 2004 and thereafter, excluding sick pay, including \$1,602,795 in interest on bonded indebtedness and \$58,192 in interest on contractual indebtedness, are as follows:

Year Ended March 31,	Proprietary Funds	General Long- Term Debt Account Group
2005	\$66,328	\$30,902
2006	111,431	30,496
2007	107,352	31,074
2008	106,494	17,105
2009	106,103	17,105
2010 - 2014	489,488	85,525
2015 - 2019	387,268	17,105
2020 - 2024	387,606	-
2025 - 2029	385,610	-
2030 - 2034	384,990	_
2035 - 2039	383,406	_
2040 - thereafter	303,049	-
Total	\$3,219,125	\$229,312
(Continued)		

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12: LONG-TERM DEBT (CONTINUED)

Interest expensed for the year ended March 31, 2004 was \$7,217. Interest capitalized and recorded as proprietary fund fixed asset, water system, for the year ended March 31, 2004 was \$44,116.

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds, which provide water services and, when completed, sewer services. Segment information for the year ended March 31, 2004, is as follows:

	Sewer	Water
Operating revenues	\$ 422,786	\$145,210
Depreciation	\$ -	\$ 22,453
Operating income	\$ -	\$ 32,079
Net income	\$ -	\$ 25,523
Fixed asset additions	\$4,326,516	\$ 18,624
Net working capital	\$ 26,202	\$ 21,787
Total assets	\$4,463,629	\$672,020
Bonds payable	\$1,482,000	\$116,000
Total equity	\$2,974,724	\$528,519

NOTE 14: CONTRIBUTED CAPITAL

The changes in contributed capital in the enterprise funds for the year ended March 31, 2004 are as follows:

-	Sewe	<u>r</u>	W	ater
Contributed capital – beginning of year	\$	-	\$	271,096
Additions – federal grants	2,97	4,724		-
Less Depreciation				9,532
Contributed capital – end of year	\$2,97	4,724	\$	261,564

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 15: AMBULANCE SERVICE

The City has entered into an agreement with eight area townships to provide ambulance service to local residents. The expenses involved in overall operations of the ambulance service are split equally between the nine units, and the expenses associated with ambulance runs within a governmental jurisdiction are absorbed by that governmental unit.

The governmental units involved have entered into a loan agreement with a balance as of March 31, 2004 of \$19,394 for the purchase of land and building to house the ambulance service. Each entity is responsible for their portion of the debt. For the year ended March 31, 2004, the City's share of expenditures were \$19,386. Financial statements can be obtained through the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

NOTE 16: FIRE SERVICE

The City has entered into an agreement with two local townships to form an Onaway Area Fire Board to provide fire service to local residents. All expenses are charged to the Fire Board to the participating units according to a formula based on comparative SEV and population. Long-term debt incurred to purchase a new fire station facility is shown in the general long-term debt account group. For the year ended March 31, 2004, the City's share of expenditures, which are included in the Joint Venture - Onaway Area Fire Board Special Revenue Fund were \$15,765.

NOTE 17: COMMITMENTS

The City has entered into various contracts for approximately \$1,600,000 to construct phase II of a wastewater treatment plant.

The City has entered into various contracts for approximately \$325,000 to perform renovations to the Onaway Courthouse building.

NOTE 18: CONTINGENCIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 19: SUBSEQUENT EVENTS

On June 15, 2004 the City issued \$150,000 General Obligation Unlimited Tax Bonds and received a grant of \$200,000 for the renovation of the Onaway Courthouse building.

NOTE 20: RISK MANAGEMENT

The City of Onaway participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the City of Onaway. The City pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for property of \$1,273,300, general liability of \$5,000,000, wrongful acts of \$4,000,000, law enforcement of \$4,000,000, automobile of \$3,000,000, crime of \$10,000, inland marine liability of \$211,600, boiler of \$250,000 and bonding for public officials errors and omissions. Additionally, the City has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

CITY OF ONAWAY GENERAL FUND SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES FOR THE YEAR ENDED MARCH 31, 2004

LEGISLATIVE		
City council		\$12,963
CENEDAL COVERNACIONE		412,500
GENERAL GOVERNMENT		
City Administrator	\$96,392	
Elections	1,096	
Assessor	6,865	
Professional Services	13,881	
Board of Review	2,000	
City hall and grounds	14,131	
City property	23,988	
Cemetery	7,422	
Promotion	12,486	
TOTAL GENERAL GOVERNMENT		178,261
PUBLIC SAFETY		
Police Department	02.212	
Fire Department	92,312	
Ambulance	15,765	
	19,386	
TOTAL PUBLIC SAFETY		127,463
PUBLIC WORKS		,
Sidewalks		
Street lighting	2,989	
Sanitation	14,094	
Substituti	41,642	
TOTAL PUBLIC WORKS		58,725
RECREATION AND CULTURE - PARKS		15,793
TOTAL EXPENDITURES		
		393,205
OTHER FINANCING USES		
Transfers to other funds		163,700
TOTAL EXPENDITURES AND OTHER		
FINANCING USES		PEEC 00=
		\$556,905

•	
•	
	SPECIAL REVENUE FUNDS

CITY OF ONAWAY COMBINING BALANCE SHEET ALL SPECIAL REVENUE FUNDS MARCH 31, 2004

A COPPER	JOINT VENTURE				
ASSETS		•			
	MAJOR	LOCAL	FIRE		
	STREET	STREET	BOARD	TOTAL	
ASSETS:					
Cash and cash equivalents	\$79,575	\$22,753	\$42,380	\$144,708	
Accounts receivable	11,867	5,908	-	17,775	
TOTAL ASSETS	\$91,442	\$28,661	\$42,380	\$162,483	
FUND BALANCES:					
Unreserved and undesignated	\$91,442	\$28,661	\$42,380	\$162,483	

CITY OF ONAWAY ALL SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED MARCH 31, 2004

	MAJOR		OINT VENTURE ONAWAY AREA FIRE	
	STREET	STREET	BOARD	TOTAL
REVENUES:				
State shared revenue	Ø61 002			
Charges for services	\$61,093	\$32,230	\$ -	\$93,323
Interest	353	-	45,064	45,064
Donations	-	112	382	847
			168	168
TOTAL REVENUES	61,446	32,342	45,614	139,402
EXPENDITURES:				
Public works - Highways and Streets:				
Street construction	_	_		
Routine maintenance	15,998	8,576	-	-
Traffic services	619	609	-	24,574
Winter maintenance	8,437	27,409	-	1,228 35,846
Administration	5,988	3,160	_	9,148
Public safety:	•	2,100	-	9,148
Fire Services	-	_	19,949	19,949
Debt Service:			15,545	19,949
Principal	-	6,000	13,783	19,783
Interest and paying agent fees		2,664	8,813	11,477
TOTAL EXPENDITURES	31,042	48,418	42,545	122,005
REVENUES OVER (UNDER)				
EXPENDITURES	20.404	/# C 0 # C		
_	30,404	(16,076)	3,069	17,397
OTHER FINANCING SOURCES (USES)				
Operating transfer in	_	14,969		
Operating transfer (out)	(14,969)	14,909	-	14,969
_	(14,505)			(14,969)
TOTAL OTHER FINANCING SOURCES (USES)	(14,969)	14,969		-
REVENUES AND OTHER SOURCES				
OVER (UNDER) EXPENDITURES				
AND OTHER USES	15,435	(1,107)	3,069	17,397
				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
FUND BALANCES - BEGINNING OF YEAR	76,007	29,768	39,311	145,086

ENTERPRISE FUNDS

CITY OF ONAWAY ENTERPRISE FUNDS COMBINING BALANCE SHEET MARCH 31, 2004

ASSETS	SEWER	WATER	
ASSETS	FUND	FUND	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$25,952	\$589	\$26,541
Restricted cash and cash equivalents	7,155	9,436	16,591
Restricted investments	, -	16,500	16,500
Accounts receivable	-	32,011	32,011
Special assessments receivable	-	1,752	1,752
TOTAL CURRENT ASSETS	33,107	60,288	93,395
 PROPERTY AND EQUIPMENT 			
Water system	_	1,057,058	1 057 050
Sewer system-construction in progress	4,398,920	1,057,056	1,057,058 4,398,920
Less: accumulated depreciation		(445,326)	(445,326)
NET PROPERTY AND EQUIPMENT	4,398,920	611,732	5,010,652
OTHER ASSETS			
Financing costs (net of amortization)	31,602		31,602
TOTAL ASSETS	\$4,463,629	\$672,020	\$5,135,649
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts payable	6,905	\$ -	\$6,905
Due to other funds	-	22,000	22,000
Deferred revenue	-	1,752	1,752
Bonds payable	•	11,000	11,000
Note payable	•	3,749	3,749
TOTAL CURRENT LIABILITIES	6,905	38,501	45,406
LONG - TERM DEBT			
Bonds payable	1,482,000	105,000	1,587,000
TOTAL LONG - TERM DEBT	1,482,000	105,000	1,587,000
TOTAL LIABILITIES	1,488,905	143,501	1,632,406
FUND EQUITY			
Contributed capital	2,974,724	261,564	2 227 200
Retained Earnings:	2,2 / 4, / 24	201,504	3,236,288
Reserved for revenue bonds	_	25,936	25.026
Unreserved	•	241,019	25,936 241,019
TOTAL FUND EQUITY	2,974,724	528,519	3,503,243
TOTAL LIABILITIES AND FUND EQUITY	\$4,463,629	\$672,020	\$5,135,649
-			

CITY OF ONAWAY ENTERPRISE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 2004

		SEWER	WATER	
	OPERATING REVENUES	<u>FUND</u>	FUND	TOTAL
	Charges for services			
-	Current taxes	\$ -	\$143,252	\$143,252
		-	1,958	1,958
	State grant	422,786	-	422,786
	TOTAL OPERATING REVENUES	422,786	145,210	567,996
	OPERATING EXPENSES			
	Salaries and wages	_	32,531	22 521
	Fringe benefits	_	6,228	32,531
	Supplies and gasoline		6,096	6,228
	Travel and memberships	-	0,090 856	6,096
	Professional services	422,786		856
	Conferences and workshops	422,700	8,939	431,725
	Insurance and bonds	-	90	90
	Utilities	-	2,443	2,443
	Repair and maintenance supplies	-	21,701	21,701
	Equipment rentals	-	1,065	1,065
_	Depreciation	-	10,729	10,729
	_ .F	<u> </u>	22,453	22,453
	TOTAL OPERATING EXPENSES	422,786	113,131	535,917
	OPERATING INCOME		32,079	32,079
	NON-OPERATING REVENUES (EXPENSES)			
_	Interest revenue	_	661	((1
	Interest and fiscal charges	_	(7,217)	661
	G		(7,217)	(7,217)
_	TOTAL NON-OPERATING (EXPENSES) - NET		(6,556)	(6,556)
	NET INCOME	-	25,523	25,523
_	ADD: Depreciation on Fixed Assets			
	Acquired with contributed capital	·	9,532	9,532
_	INCREASE (DECREASE) IN			
	RETAINED EARNINGS		25 A55	3= 3==
		-	35,055	35,055
	RETAINED EARNINGS, BEGINNING OF YEAR		231,900	231,900
	RETAINED EARNINGS, END OF YEAR	\$ -	\$266,955	\$266,955

CITY OF ONAWAY ENTERPRISE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2004

_	SEWER FUND	WATER FUND	TOTAL
CASH ELOWS FROM OPER ATTING A CTIVITY			
CASH FLOWS FROM OPERATING ACTIVITIES:	_		
Operating income (loss) Adjustment to reconcile operating income to net	\$ -	\$32,079	\$32,079
cash provided by operating activities:			
Depreciation			
(Increase) decrease in:	-	22,453	22,453
Accounts receivable			
	-	(1,878)	(1,878)
Increase (decrease) in:			
Accounts payable	6,905	(1,773)	5,132
Due to other funds	-	4,000	4,000
NET CASH PROVIDED BY			
OPERATING ACTIVITIES	6,905	54,881	61,786
CASH FLOWS FROM CAPITAL AND			
RELATED FINANCING ACTIVITIES:			
Purchase of property, equipment and			
construction in progress	(4,282,400)	(18,624)	(4,301,024)
Construction period interest	(44,116)		(44,116)
Financing costs paid	(24,007)	_	(24,007)
Interest paid	-	(7,217)	(7,217)
Bond proceeds	1,408,000	(1,5=2.7)	1,408,000
Repayment of bonds	(6,000)	(10,000)	(16,000)
Repayment of notes payable	•	(23,609)	(23,609)
Increase in contributed capital-federal grants	2,897,772	(23,007)	2,897,772
Increase in contributed capital-state grant	26,952	_	26,952
Increase in contributed capital-city	50,000	<u> </u>	50,000
NET CASH PROVIDED (USED) BY CAPITAL AND			
RELATED FINANCING ACTIVITIES	26,201	(59,450)	(33,249)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income		661	661
NET INCREASE IN CASH AND			
CASH EQUIVALENTS	33,106	(3,908)	20.100
	33,100	(3,908)	29,198
CASH AND CASH EQUIVALENTS,			
BEGINNING OF YEAR	1	13,933	13,934
CASH AND CASH EQUIVALENTS,			
END OF YEAR	\$33,107	\$10,025	\$43,132
·			

FIDUCIARY	FUND

CITY OF ONAWAY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES TRUST AND AGENCY FUND - TAX COLLECTION FUND FOR THE YEAR ENDED MARCH 31, 2004

	BALANCE APRIL 1, 2003	ADDITIONS	DELETIONS	BALANCE MARCH 31, 2004
ASSETS:				
Cash	\$50	\$410,830	\$403,766	\$7,114
LIABILITIES:				
Due to other funds	\$50	\$200,457	\$193,393	\$7,114
Due to other governmental units		210,373	210,373	
TOTAL LIABILITIES	\$50	\$410,830	\$403,766	\$7,114

SCHEDULES

CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2004

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
GENERAL LONG-TERM DEBT			KAIL
1992 Michigan Transportation Fund Bonds			
Payments due:			
September 1 and March 1	9/01/92		
	7/01/92	\$76,000	5.75
			5.80
			6.00
			6.00
TOTAL 1992 MICHIGAN TRANSPORTATION FUNI	BONDS		
ENTERPRISE FUND:			
1974 Water Revenue Bonds			
Payments due:			
January 1 and July 1	1/07/74	6375 000	= 00.
	_, _,,,,	\$275,000	5.0%
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
OTAL WATER REVENUE BONDED INDEBTEDNES	SS		
03 Sanitary Sewer System Revenue Bond, Series B			
ayments due:			
April 1 and October 1	9/16/2002	\$84,000	5.60%
		, 	5.60
			5.60
			5.60
			5.60
			5.60
			5.60
			5.60

(Continued)

_	DATE OF	AMOUNT OF ANNUAL	AMOUNT OUTSTANDING MARCH 31,
	MATURITY	MATURITY	2004
	2/04/04		
	3/01/04	6,000	\$ -
	3/01/05	7,000	7,000
_	3/01/06	7,000	7,000
	3/01/07	8,000	8,000
_			22,000
-			
	1/01/04	\$10,000	\$ -
	1/01/05	11,000	11,000
-	1/01/06	11,000	11,000
	1/01/07	12,000	12,000
	1/01/08	12,000	12,000
-	1/01/09	13,000	13,000
	1/01/10	14,000	14,000
	1/01/11	14,000	14,000
	1/01/12	14,000	14,000
	1/01/13	15,000	15,000
•		_	116,000
	4/01/04	¢4 000	•
	4/01/05	\$6,000	\$ -
	4/01/05	10,000	10,000
,	4/01/07	10,000 10,000	10,000
-	4/01/08	10,000	10,000
	4/01/08 4/01/09	10,000	10,000
	4/01/10		10,000
•	4/01/11	12,000 12,000	12,000
	7/01/11	12,000	12,000
1			74,000

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2004	
4/01/04	\$ -	\$	
4/01/05	12,000	12,00	
4/01/06	12,000	12,00	
4/01/07	13,000	13,000	
4/01/08	13,000	13,000	
4/01/19	14,000	14,000	
4/01/10	15,000	15,000	
4/01/11	15,000	15,000	
4/01/12	16,000	16,000	
4/01/13	17,000	17,000	
4/01/14	17,000	17,000	
4/01/15	18,000	18,000	
4/01/16	19,000	19,000	
4/01/17	20,000	20,000	
4/01/18	21,000	21,000	
4/01/19	22,000	22,000	
4/01/20	23,000	23,000	
4/01/21	24,000	24,000	
4/01/22	25,000	25,000	
4/01/23	26,000		
4/01/24	27,000	26,000 27,000	
4/01/25	28,000		
4/01/26	30,000	28,000	
4/01/27	31,000	30,000	
4/01/28	32,000	31,000	
4/01/29	34,000	32,000	
4/01/30	35,000	34,000	
4/01/31	37,000	35,000	
4/01/32	39,000	37,000	
4/01/33	40,000	39,000	
4/01/34	42,000	40,000	
4/01/35	44,000	42,000	
4/01/36	46,000	44,000	
4/01/37	48,000	46,000	
4/01/38	50,000	48,000	
4/01/39	52,000	50,000	
4/01/40	55,000 55,000	52,000	
4/01/41	55,000 57,000	55,000	
4/01/42	56,000	57,000	
# V 1 7 M	20,000	56,000	

CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED) MARCH 31, 2004

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
003 Sanitary Sewer System Revenue Bond, Series C			
Payments due:			
April 1 and October 1	5/6/2003	\$283,000	4.50%
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
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			4.50
			4.50
			4.50
			4.50 4.50
			4.50
			4.50

TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES C

TOTAL BONDED INDEBTEDNESS

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2004
4/01/04	\$ -	\$ -
4/01/05	3,000	3,000
4/01/06	3,000	3,000
4/01/07	3,000	3,000
4/01/08	3,500	3,500
4/01/19	3,500	3,500
4/01/10	3,500	3,500
4/01/11	4,000	4,000
4/01/12	4,000	4,000
4/01/13	4,000	4,000
4/01/14	4,500	4,500
4/01/15	4,500	4,500
4/01/16	5,000	5,000
4/01/17	5,000	5,000
4/01/17	5,000	5,000
4/01/18 4/01/19	5,500	5,500
4/01/19	5,500	5,500
4/01/20	6,000	6,000
4/01/21	6,000	6,000
4/01/22	6,500	6,500
4/01/24	7,000	7,000
4/01/25	7,000	7,000
4/01/26	7,500	7,500
4/01/27	7,500	7,500
4/01/28	8,000	8,000
4/01/29	8,500	8,500
4/01/30	9,000	9,000
4/01/31	9,000	9,000
4/01/32	9,500	9,500
4/01/33	10,000	10,000
4/01/34	10,500	10,500
4/01/35	11,000	11,000
4/01/36	11,500	11,500
4/01/37	12,000	12,000
4/01/38	12,500	12,500
4/01/39	13,000	13,000
4/01/40	13,500	13,500

4/01/41

4/01/42

283,000 \$1,620,000

14,500

16,500

14,500

16,500

CITY OF ONAWAY SCHEDULE OF CONTRACTUAL INDEBTEDNESS MARCH 31, 2004

	INTEREST RATE	NOTES PAYABLE APRIL 1, 2003	NOTE ISSUED
1999 New Holland Backhoe	5.3%	\$16,360	\$ -
Kubota Tractor	2.96	-	9,600
\$99,000 Water System Improvement	5.08	27,359	-
Fire Equipment	4.68	19,616	-
Fire Station Facility	5.51	143,288	-
TOTAL NOTES PAYABLE		\$206,623	\$9,600

NOTE PAYMENTS	NOTES PAYABLE MARCH 31, 2004	
\$8,180	\$8,180	
3,200	6,400	
23,610	3,749	
4,573	15,043	
9,210	134,078	
\$48,773	\$167,450	

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-	
_	
_	
-	FEDERAL AWARDS SUPPLEMENTAL INFORMATION
-	THE THE TALL INFORMATION
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•	
•	

CITY OF ONAWAY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2004

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTORS NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE				
Rural Development, Rural Utilities Service,				
Water and Waste Disposal Systems for				
Rural Communities, Other Federal Assistance,				
Sanitary Sewer System - Loan (Note 2)	10.760	N/A	\$1,408,000	\$1,408,000
Rural Development, Rural Utilities Service,				
Water and Waste Disposal Systems for				
Rural Communities, Other Federal Assistance,				
Sanitary Sewer System - Grant	10.760	N/A	2,258,200	2.22.22
TOTAL VIOLEN		• "	2,236,200	2,258,200
TOTAL U.S DEPARTMENT OF AGRICULTURE			3,666,200	3,666,200
U.S DEPARTMENT OF HOUSING AND				
URBAN DEVELOPMENT				
Passed through Michigan Strategic Fund,				
Community Development Block Grant -				
City Sewer and Water Project	14.228	203039-EDIG	100,532	100,532
Passed through Michigan Strategic Fund,				
Community Development Block Grant -				
Downtown Development Project	14.228	201082-EDIG	11,340	11,340
TOTAL II S DEDARTMENT OF HOUSING		_		11,340
TOTAL U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
22, LEOI MEN			111,872	111,872
ENVIRONMENTAL PROTECTION AGENCY				
Passed through Michigan Department of				
Environmental Quality - Hardship Grant				
Assistance for Rural Communities	66.470	N/A	539,040	530.04 0
TOTAL PROPERTY		··· ·	337,040	539,040
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$4,317,112	\$4,317,112

CITY OF ONAWAY SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2004

GRANTOR/PROGRAM TITLE	GRANT NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
MICHIGAN DEPARTMENT OF EVIRONMENTAL QUALITY			
Surface Water Quality Division			
Onaway Wastewater Collection and Treatment System	2001-0041	\$422,786	\$422,786
Environmental Assistance Division			
Hardship Grant Assistance for Rural Communities	N/A	26,952	26,952
FOTAL MICHIGAN DEPARTMENT OF EVIRONMENTAL QUALITY		449,738	449,738
MICHIGAN COUNCIL FOR ARTS AND CULTURAL AFFAIRS			
Water and Waste Disposal Systems for			
Onaway Courthouse Restoration	02CI7ZZ	7,900	7,900
TOTAL NON-FEDERAL FINANCIAL ASSISTANCE			

CITY OF ONAWAY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended March 31, 2004

Note 1-Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Onaway and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Loans Outstanding

The City of Onaway had outstanding federal loan balances of \$1,408,000 in the Enterprise Fund-Sewer at March 31, 2004.

Note 3 -Subrecipient's

The City of Onaway provided no federal award dollars to a sub-recipient during the fiscal year.

Note 4 - Reconciliation of Reported Expenditures to Financial Statement Totals

The following is a reconciliation of total federal expenditures reported on the Schedule of Expenditures of Federal Awards to the federal expenditures administered by the City.

Enterprise Fund- Sewer:

Contributed capital Less – non federal amounts recorded as contributed capital:	\$2,974,724
State revenues recorded as contributed capital City contribution recorded as contributed capital	(26,952) (50,000)
Contributed capital – federal	2,897,772
Total bonds outstanding Less – non federal amount	1,482,000 (74,000)
Federal portion of bonds outstanding	1,408,000
Total Enterprise Fund – Sewer	4,305,772
Capital Projects Fund:	
C.D.B.G. Downtown Development Grant	11,340
Total Expenditures per Schedule of Expenditures of Federal Awards	\$4,317,112



Member-

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 27, 2004

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

I have audited the financial statements of the *City of Onaway, Onaway, Michigan* as of and for the year ended March 31, 2004, and have issued my report thereon dated August 27, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the *City of Onaway's* internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of the *City of Onaway, Onaway, Michigan*, in a separate letter dated August 27, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Onaway's* financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my test disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I have reported to management of the *City of Onaway*, in a separate letter dated August 27, 2004.

This report is intended solely for the information and us of management, members of the board, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richard E. Mahlmeister, C.P.A.

Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 27, 2004

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

Compliance

I have audited the compliance of the *City of Onaway, Onaway, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2004. The *City of Onaway's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the *City of Onaway's* management. My responsibility is to express an opinion on the *City of Onaway's* compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Onaway's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. The audit does not provide a legal determination on the City of Onaway's compliance with those requirements.

In my opinion, the *City of Onaway* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending March 31, 2004.

Internal Control Over Compliance

The management of the *City of Onaway* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the *City of Onaway's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and us of management, members of the board, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richard E. Mahlmeister, C.P.A.

CITY OF ONAWAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended March 31, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the financial statements. I noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements. The City did not qualify as a low-risk auditee.

An unqualified opinion was issued on compliance for major programs. I did not disclose any findings related to internal controls or compliance related to the major programs tested.

The major programs tested to cover 50 percent of the total Federal expenditures were the 1). U.S.D.A. Rural Development, Rural Utilities Service, Water and Waste Disposal Systems for Rural Communities, Other Federal Assistance, Sanitary Sewer System, Loan (CFDA 10.760), 2). U.S.D.A. Rural Development, Rural Utilities Service, Water and Waste Disposal Systems for Rural Communities, Other Federal Assistance, Sanitary Sewer System, Grant (CFDA 10.760), and 3). Environmental Protection Agency, Hardship Grant Assistance for Rural Communities (CFDA 66.470). Total Federal expenditures for the year ended March 31, 2004 for the major programs were \$4,205,240, which is approximately 97 percent of the total Federal expenditures.

Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions related to Internal Control Over the Financial Statements.

None.

Findings Related to Compliance with Requirements Related to the Financial Statements.

None.

<u>Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.</u>

None.

Questioned Costs.

None.



Member.

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

August 27, 2004

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

In planning and performing my audit of the financial statements of the *City of Onaway*, *Michigan* for the year ended March 31, 2004, I considered the City's internal control structure to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I noted certain matters involving the internal control structure and other operational matters, presented for your consideration, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated August 27, 2004 on the financial statements of the *City of Onaway, Michigan*.

Thank you for the opportunity to serve *City of Onaway, Michigan*. I appreciate the assistance I received from both Joe Hefele and Kelli Stockwell. Best wishes in the next year.

Sincerely,

Richard E. Mahlmeister, C.P.A.

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EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2004, the City incurred expenditures in certain budgetary funds, which exceeded the amount appropriated, as shown in the body of the financial statements.

The City continues to make great improvement in this area. As the excess of expenditures over appropriations were incurred primarily in the Onaway Area Fire Department Fund I, again, suggest that the City work with the Fire Department to ensure that the budgeting procedures comply with P.A. 621 of 1978.

UPCOMING FINANCIAL REPORTING CHANGES

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments, the most significant change in the history of government financial reporting. These new requirements for the annual financial reports of state and local governments become effective for the City of Onaway for the year ended March 31, 2005 and may take substantial time to implement.

As the effective date is next year, I would be pleased to explain these changes and what they mean for the City of Onaway as well as assist in implementing this new standard.

In past year's, the Independent Auditors' Report had been qualified because General Fixed Assets are not included in the financial statements. I want to commend the City for including these assets in the financial statements this year. I also, want to recommend to the City to do a further review of fixed assets not already recorded in the Motor Vehicle and Water and Sewer funds for inclusion, or potential disposal, in assets in light of the changes in reporting of these assets under GASB 34.